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# Message Text

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E.O. 11652: GDS

TAGS: PFOR, ETRN, WB, US, UK, FR, GW

SUBJECT: CONSULTATIONS WITH UK ON BERLIN AIR SERVICES

1. SUMMARY: AT MEETING IN DEPARTMENT DECEMBER 18 UK REPS REQUESTED USG SUPPORT FOR MAKING APPROACH TO FRG TO EXPLAIN BRITISH AIRWAYS' CONTINUING ECONOMIC PROBLEMS IN THE IGS AND TO SUPPORT A REQUEST FOR INCREASED FRG SUBSIDIES TO SCHEDULED BERLIN CARRIERS. DEPARTMENT EXPRESSED STRONG DOUBTS THAT FRG WOULD GRANT FURTHER SUBSIDIES BUT AGREED, ON BASIS THAT IT WAS IN BERLIN INTERESTS TO KEEP BA IN IGS, TO OFFER POLITICAL SUPPORT TO UK PROPOSAL SUBJECT TO SOME CONDITIONS. EMBASSY SHOULD DISCUSS WITH UK NATURE OF APPROACH TO BE MADE TO FRG, SEEK EARLY AGREEMENT TO TA;LE OUTSTANDING FARE INCREASE PROPOSAL
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IN BCATAG, AND DETERMINE BEST POINT TO BRING FRENCH INTO

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PICTURE. END SUMMARY.

2. TEAM OF SIX UK OFFICIALS LED BY COMMERCIAL MINISTER CORTAZZI OF UK EMBASSY WASHINGTON, AND INCLUDING JAMES, FCO LONDON, HIBBERT, UK EMBASSY BONN, AND GARDNER, DOT LONDON, HELD TWO MEETINGS DECEMBER 18 WITH DEPT OFFS HEADED BY DEPUTY ASSISTANT SECRETARY STABLER. DURING MORNING SESSION UK FCO REP (JAMES) STRESSED POLITICAL

IMPORTANCE TO BERLIN, FRG AND ALLIES OF CONTINUED BA OPERATIONS IN BERLIN, BUT POINTED OUT THAT UK NO LONGER IN POSITION TO UNDERWRITE LOSING COMMERCIAL OPERATION, PARTICULARLY SINCE IGS LARGELY EXISTS AS SERVICE FOR CITIZENS OF ONE OF THE MOST ECONOMICALLY STABLE COUNTRIES IN WORLD. IN SUPPORT OF UK POSITION DOT REP (GARDNER) BRIEFLY REHEARSED STANDARD UK ECONOMIC ARGUMENTS, CLAIMING THAT BRITISH AIRWAYS THREATENED WITH STAGGERING LOSSES IN IGS THIS YEAR, CITING LONG LIST OF STATISTICS AS PROOF THAT BA WAS LOSING MONEY. HOWEVER, WHEN PRESSED TO EXPLAIN WHY PAN AM ABLE TO CONTINUALLY TURN PROFIT WHILE BA GOING EVER DEEPER INTO DEBT, ONLY EXPLANATION UK (GARDNER) OFFERED WAS THAT QUOTE IT FACT OF AVIATION LIFE UNQUOTE THAT 63-37 PERCENT MARKET DIVISION IN IGS VIRTUALLY ASSURES LOWER BA LOAD FACTOR ON ITS AIRCRAFT, AND THAT PAN AM'S EXTRA FIVE PERCENT LOAD FACTOR PROVIDES ITS PROFITS.

3. UK TEAM NOTED THAT RATIONALIZATION TALKS BETWEEN THE TWO AIRLINES HAVE BEEN PROCEEDING REASONABLY SMOOTHLY FOR PAST TWO YEARS AND UK FEELS THERE IS NO NEED TO SEEK ANY CHANGES IN THIS AREA. IT WAS CLEAR TO UK, HOWEVER, THAT BA MUST INCREASE ITS REVENUES BY 17.5 PERCENT OR ELSE IT WOULD LOSE BETWEEN TWO TO THREE MILLION POUNDS STERLING THIS YEAR AND IN EXCESS OF THREE MILLION POUNDS NEXT YEAR. UK REP CONCEDED THAT FARE INCREASE TOTALLING 17.5 PERCENT WOULD HAVE SERIOUS NEGATIVE IMPACT ON PASSENGER TRAFFIC VOLUME IN IGS, AND INDICATED UK WOULD NOT PUSH FOR FARE INCREASE OF THAT AMOUNT. INSTEAD UK TEAM PROPOSED THAT THREE POINT PACKAGE BE PRESENTED TO FRG FOR CONSIDERATION, INCLUDING (A) CONFIDENTIAL



IMPLEMENTATION OF THE PRESENTLY PENDING FARE INCREASE PROPOSAL, (B) AN IMMEDIATE INCREASE IN FRG SUBSIDIES BY 50 PERCENT ON EACH IGS ROUTE SECTOR, AND (C) AS LONGER-TERM GOAL, PUTTING THE RATE OF RETURN PER PASSENGER MILE REALIZED BY THE IGS CARRIERS O; PARITY WITH THAT EARNED BY LUFTHANSA ON ITS DOMESTIC ROUTES.

4. US SIDE, IN RESPONDING, EXPRESSED GREAT SKEPTICISM

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THAT FRG WOULD BE WILLING TO CONSIDER FURTHER SUBSIDIES,
AND PRESSED UK FOR ITS FALLBACK POSITION SHOULD FRG
REFUSE TO GO ALONG WITH PROPOSAL AS OUTLINED BY UK TEAM.
US SIDE ALSO POINTED OUT THAT WE WOULD BE HARD PRESSED
TO ARGUE THE ECONOMIC NECESSITY FOR FURTHER SUBSIDIES
SINCE OUR CARRIER CONTINUES TO TURN A SATISFACTORY
PROFIT. FINALLY US REPS RAISED THE QUESTION OF FRENCH
PARTICIPATION IN THIS EXERCISE, POINTING OUT THAT IN
CONNECTION WITH BERLIN INTERNATIONAL FLIGHTS AND WITH
THE OPENING OF TEGEL GOF HAS BEGUN TO SHOW MORE VIGOROUS

INTEREST IN BERLIN CIVIL AVIATION ISSUES.

5. UK REPS DID NOT DOUBT GERMANS INITIALLY WILL STRONGLY
OPPOSE FURTHER SUBSIDIES, BUT CLAIMED UK WOULD BE
EQUALLY STRONG IN PRESENTING ITS VIEW THAT BA CANNOT
AND WILL NOT CONTINUE TO OPERATE IN IGS AT LOSS. UK
SIDE REPEATEDLY EXPRESSED VIEW THAT BA PARTICIPATION
IN IGS WAS OF SUCH IMPORTANCE TO BERLIN AND FRG,THAT
WHEN FACED WITH REALIZATION THAT IT MUST CHOOSE BETWEEN
FURTHER SUBSIDIES OR THE DEPARTURE OF BA, FRG WILL ELECT
TO PAY THE SUBSIDIES. (COMMENT: EXTENT TO WHICH UK
REPS--HIBBERT IN PARTICULAR--HAVE CONVINCED THEMSELVES
THAT FRG WILL ACCEPT UK PROPOSAL OR SOMETHING CLOSE
TO IT IS SURPRISING. NOTHING IN UK TEAM'S PRESENTATION
GAVE ANY HINT THAT THEY ARE SERIOUSLY CONTEMPLATING
A BA WITHDRAWAL.)

6. ON SECOND POINT RAISED BY US SIDE, UK REPS SAID THEY
DID NOT EXPECT USG TO ARGUE BA'S ECONOMIC CASE FOR IT,
AND PROMISED THE UK WOULD SHOULDER THAT TASK. UK ONLY
WISHED US TO SUPPORT UK WITH ARGUMENT THAT IT WAS
POLITICALLY IMPORTANT FOR BA TO REMAIN IN THE IGS.
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7. UK SIDE SHOWED INITIAL UNWILLINGNESS TO CONSIDER
DISCUSSION OF ITS PROPOSAL WITH FRENCH, ARGUING THAT
FRENCH NOT INTERESTED IN BERLIN CIVIL AVIATION ISSUES
EXCEPT WHEN THEY MIGHT LEAD TO CONFRONTATION WITH SOVIETS.
ULTIMATELY HOWEVER, UK DID AGREE THAT FRENCH POLITICAL
SUPPORT FOR ANY APPROACH TO FRG WOULD BE NECESSARY,
AND AGREED TO BRING FRENCH INTO PICTURE AS SOON AS DEPT
ABLE TO GIVE GO AHEAD TO EMBASSY BONN TO BEGIN PRE-
PARING WITH UK EMBASSY DETAILS OF APPROACH TO FRG.

8. FOLLOWING LUNCH BREAK STABLER ADVISED UK REPS THAT
DEPARTMENT WOULD TAKE UK REQUEST UNDER ADVISEMENT, IN
VIEW OF IMPORTANCE USG ATTACHES TO MAINTAINING BEST
POSSIBLE BERLIN AIR SERVICE. DEPARTMENT HAS NOW COM-

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PLETED ITS REVIEW OF THE UK PROPOSALS AND AUTHORIZES
EMBASSY TO JOIN WITH UK EMBASSY BONN TO WORK OUT, AD
REF TO CAPITALS, BASIS FOR MAKING APPROACH TO THE FRG ON
A SUBSIDY INCREASE PROPOSAL SUBJECT TO THE FOLLOWING:

A) IN VIEW OF THE FINANCIAL SITUATION PORTRAYED BY UK,
FARE INCREASE PROPOSALS SHOULD BE TABLED WITH FRG
FORTHWITH SO THAT NEW FARES CAN BE PUT INTO EFFECT
BY END OF JANUARY IF POSSIBLE. WE WOULD BE PREPARED TO
INDICATE TO FRG FOREIGN OFFICE AT TIME WE TABLE FARE
INCREASE REQUEST IN BCATAG THAT FURTHER APPROACH WOULD

BE MADE IN NEAR FUTURE IN EFFORT TO FIND LONG TERM
SOLUTION TO ECONOMIC SITUATION IN IGS WHICH WOULD OBVIATE
NEED FOR FREQUENT FARE INCREASES. HOWEVER, WE WOULD NOT
WANT TO ESTABLISH LINK BETWEEN FARE INCREASE AND REQUEST
TO FRG FOR SUBSIDY INCREASE SINCE THIS LIKELY TO REDUCE
LIKELIHOOD FOR EARLY INSTITUTION OF PRESENT FARE INCREASE
REQUEST.

B) FRENCH MUST BE ADVISED OF OUR PLANS PRIOR TO ANY
APPROACH TO FRG, AND BE INVITED TO SUPPORT US-UK PROPOSAL
WHEN APPROACH ACTUALLY MADE.

C) USG PREPARED TO SUPPORT UK REQUEST ON POLITICAL
GROUNDS ONLY. WE CONTINUE TO ACCEPT PROPOSITION THAT
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SUBSTANTIAL PARTICIPATION BY BA IN POLITICAL BEST
INTERESTS OF BERLIN, AND WE WOULD HOPE IT WOULD BE
POSSIBLE FOR BA TO FIND A WAY TO CONTINUE ITS OPERATIONS
AT OR NEAR THE PRESENT LEVEL. GIVEN PAN AMERICAN'S
RELATIVELY GOOD COMMERCIAL POSITION IN
THE IGS, HOWEVER, WE CANNOT, IN ALL FRANKNESS, OFFER
ANY SUPPORT TO UK ARGUMENTS THAT AN ADDITIONAL SUBSIDY
IS NECESSARY ON ECONOMIC GROUNDS. WE WOULD EXPECT,
THEREFORE, THAT THE UK WOULD ASSUME THE ENTIRE RES-
PONSIBILITY OF MAKING THE ECONOMIC ARGUMENTS ON BA'S
BEHALF.

D) WHILE WE ARE PREPARED TO JOIN THE UK IN MAKING A
PROPOSAL TO THE FRG FOR ADDITIONAL SUBSIDIES, WE ARE
NOT PREPARED TO PUSH THE MATTER TO THE POINT WHERE IT
BECOMES A SERIOUS ISSUE BETWEEN THE US AND FRG.

(COMMENT-FYI ONLY: WITH RESPECT TO THIS LAST POINT IT
IS OUR INITIAL THOUGHT THAT USG MUST BE PREPARED TO TELL
FRG, SHOULD FRG ASK, THAT PAN AMERICAN COULD PROVIDE
SERVICE AT APPROXIMATELY SAME LEVEL PRESENTLY OFFERED
BY PAN AM AND BA COMBINED IT IT WERE ASKED TO DO SO.

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SOME FREQUENCY REDUCTIONS WOULD NECESSARILY OCCUR WERE BA TO LEAVE THE MARKET, BUT USG WOULD WORK TO KEEP THESE TO MINIMUM SO THAT FREQUENCIES OFFERED BERLIN TRAVELLING PUBLIC WOULD NOT ALTER APPRECIA;LY. HOWEVER, WE ARE NOT RPT NOT ATTEMPTING DISPLACE BA TO HELP PAN AMERICAN. WE ARE WILLING GO AS FAR AS WE REASONABLY CAN TO HELP UK STAY IN PICTURE. IF THEY DECIDE THEY CANNOT, WE WANT THIS TO BE THEIR DECISION AND WE WANT TO GIVE THEM NO REASON TO BLAME US. END COM;ENT.)

9. AT TALKS IN WASHINGTON UK TEAM PROVIDED NON-PAPER WHICH DEPARTMENT AGREES CAN SERVE AS FRAMEWORK FOR DEVELOPING APPROACH TO FRG. COPIES HAVE BEEN POUCHED

TO EMBASSY AND USBERLIN. DEPARTMENT'S COMMENTS ON THIS PAPER WILL FOLLOW SEPTEL. KISSINGER

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